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RUEHRO/AMEMBASSY ROME 1461
RUEHMD/AMEMBASSY MADRID 5488
RUEHLO/AMEMBASSY LONDON 2929
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/USDOC WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEHRC/USDA FAS WASHDC 0896
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SUBJECT: MOROCCO ECONOMIC HIGHLIGHTS

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- Royal Conglomerate interest in Jorf Lasfar
- Privatization Resumes: State Tea and Sugar Company
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Hu Emphasizes Economic/Commercial Ties on Three-Day Visit

1. Economic and commercial issues dominated Chinese President Hu Jiantao's April 23-25 visit to Morocco - his first stop on a three country Africa tour following his trips to Washington and Riyadh. Responding to Moroccan fears of China's domination of manufactured exports, particularly the textile and garment sector (evidenced by a surge of Chinese imports into Morocco), Chinese officials agreed to establish joint ventures in Morocco to produce Chinese manufactures with Moroccan labor (including textiles) for export to Europe and Africa (but notably, not to the United States under the newly implemented FTA). Seven cooperative agreements were signed, including accords on tourism promotion, public health, cultural exchange, infrastructure, and scientific and technological research. The Chinese also agreed to provide up to \$500 million for investment in infrastructure projects. An agreement for the purchase of 800 thousand tons phosphate-based fertilizer (a major Moroccan export) in 2007 through 2011 was also concluded. China and Morocco also agreed to establish a joint venture to produce phosphoric acid. Bilateral Sino-Moroccan trade is about \$1.48 billion or 50 percent more than U.S.-Moroccan trade. However, in contrast, the balance heavily favors China (\$1.2 billion in exports, accounting

for five percent of Moroccan imports). China- Morocco trade grew 28.2 percent in 2005, slightly more than the 25 percent average annual rate of increase over the last several years.

Royal Conglomerate interest in Jorf Lasfar

12. Emborffs have learned that the royally-controlled conglomerate ONA is in negotiations with Swedish-Swiss engineering firm ABB to assume its stake in the coal-fired Jorf Lasfar electricity generation facility joint venture with Michigan-based CMS Energy. Jorf Lasfar - which provides about 60 percent of Morocco's electricity (a demand that is growing eight percent annually) - has a long term concession to provide electricity at fixed rates through 2027. ABB has been seeking to exit the project for many years, but CMS remains committed to its largest overseas investment (and one of the largest U.S. investments on the African continent). On April 23, ONA announced publicly its intention to invest in electricity generation, an unsurprising development in light of the GOM's plans to liberalize the generation and distribution of electricity, perhaps as early as 2007.

Privatization Resumes: State Tea and Sugar Company

13. After a pause of several months, the GOM has resumed privatizing state companies. The state privatized the state sugar and tea trading company (Somathes), issuing over 3.75 million shares, each nominally valued at DH 100 (about \$11). The trading company was created with the commercialization

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in 2004 of the National Office of Tea and Sugar that had held a 35 year monopoly on the importation and distribution of green tea and sugar - staples of Moroccan consumption. (In fact, Morocco reportedly boasts the world's highest per capita sugar consumption.) The Somathes privatization brings total privatization receipts from the sale of 70 state companies over the last several years to more than 77 billion Dirham (about \$8.5 billion). Informal indications are that the state ferry company Comanav will be one of the next put on the block. Government officials say that 81.2 percent of investors in privatized firms are foreign (75.2 percent French, 9.4 percent Spanish, and 5.5 percent Saudi Arabian) and about 18 percent are Moroccan.

FTA: ISP-Liability Laws Adopted "in Haste"

14. In an early backlash to FTA implementation, Moroccan information technology experts have publicly criticized the GOM's "hasty" adoption of internet-related IPR laws in December 2005. The laws were adopted to bring Morocco into compliance with FTA provisions, enabling the agreement to come into force in January 2006. Attacking government officials for rushing the laws through parliamentary process at the behest of U.S. negotiators without sufficient consultation with industry, Moroccan ISP providers and other IT executives note their concern that Morocco has adopted and will impose new and untested penalties for internet-based piracy on the industry.

Casablanca Exchange - Running with the Bulls

15. On April 28, following a bullish April, the Masi (Casablanca Stock Exchange Index) passed the psychologically important 8000 point mark for the first time since the Masi was created in January 2002. The Casablanca exchange rose 10 percent in April alone. Added to moderate growth in February and March and a 20 percent rise in January, the Casablanca exchange has enjoyed 46 percent annual growth. Capitalization of the Casablanca exchange has reached 370 billion Dirham (about \$40 billion or 80 percent of Moroccan

GDP).

Contraband Wheat Seized

¶6. Moroccan Customs "mobile enforcement teams" seized 80 tons of contraband wheat smuggled by truck from Algeria. The seizure of six vehicles and their cargo occurred 50 kilometers south of the northeastern Mediterranean port of Nador. While it is surprising to smuggle such a low value commodity in such small amounts, some of Morocco's persistent and recurrent sanitary and phytosanitary problems are attributed to widespread illicit cross border animal and commodity trade.

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